November 13, 2007

BY HAND
Ms. Karen Nickerson
Secretary
Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: IN THE MATTER OF INTEGRATED RESOURCE PLANNING FOR THE PROVISION OF STANDARD OFFER SUPPLY SERVICES BY DELMARVA POWER & LIGHT COMPANY UNDER 26 DEL. C. § 1007(c) & (d): REVIEW AND APPROVAL OF THE REQUEST FOR PROPOSALS FOR THE CONSTRUCTION OF NEW GENERATION RESOURCES UNDER 26 DEL. C. § 1007(d), PSC DOCKET NO. 06-241

Dear Ms. Nickerson

Please find enclosed for filing the original and ten copies of Eastern Shore Natural Gas Company's Comments on the Delaware Public Service Commission Staff Report on the Term Sheets for Proposed Power Sales to Delmarva Power in the above-referenced docket.

Sincerely,

/sig/
Elaine B. Bittner
Vice President

Enclosures

cc: also via e-mail

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE
AND THE DELAWARE ENERGY OFFICE
THE OFFICE OF MANAGEMENT AND BUDGET
AND THE CONTROLLER GENERAL

IN THE MATTER OF INTEGRATED RESOURCE PLANNING FOR THE PROVISION OF STANDARD OFFER SUPPLY SERVICES BY DELMARVA POWER & LIGHT COMPANY UNDER 26 DEL. C. § 1007(c) & (d) : REVIEW AND APPROVAL OF THE REQUEST FOR PROPOSALS FOR THE CONSTRUCTION OF NEW GENERATION RESOURCES UNDER 26 DEL. C. § 1007(d)	)	PSC DOCKET NO. 06-241

Comments of Eastern Shore Natural Gas Company on the
Delaware Public Service Commission Staff Report on the
Term Sheets for Proposed Power Sales to Delmarva Power

In accordance with the procedural order issued jointly on September 18, 2007, by the Delaware Public Service Commission ("PSC") and three other Delaware Agencies (the Delaware Energy Office, the Office of Management and Budget, and the Controller General)(collectively, "the State Agencies"), Eastern Shore Natural Gas Company ("Eastern Shore") hereby submits its comments on the PSC Staff's October 29, 2007 "Report on the Term Sheets for Proposed Power Sales to Delmarva Power" ("Staff Report "). The Staff's Report is the most recent step in the process established by the State Agencies to comply with the Electric Utility Retail Customer Supply Act of 2006 ("EURCSA"). Pursuant to the EURCSA, Delmarva Power filed its proposal to obtain long-term power supply, which included a Request for Proposal ("RFP") for the construction of new generation resources in Delaware. Upon review of the RFP responses, the State Agencies issued an order on May 22, 2007, directing Delmarva Power to negotiate in good faith with Bluewater Wind for a long-term power purchase agreement ("PPA") for the provision of wind power. The Order further directed Delmarva Power to negotiate with both Conectiv Energy ("Conectiv") and NRG Energy ("NRG") to provide necessary backup firm power when wind power is not available. The State Agencies also recommended that the backup generation is natural gas-fired and located in Sussex County. Eastern Shore supports natural gas as the preferred fuel for electric power generation. Additionally, Eastern Shore believes that natural gas fueled generation in the southern portion of Delaware is a key part of the solution.

Eastern Shore's comments on the Staff's Report will focus on observations and questions in the Report regarding natural gas transmission service that could support the back-up generation proposals submitted by Conectiv and NRG.

Eastern Shore believes that its comments on the portions of the Staff's Report dealing with natural gas transmission will be more useful if they are placed in the context of: (1) Eastern Shore's role in the energy infrastructure on the Delmarva Peninsula over the past 50 years, (2) Eastern Shore's interest in being part of the solution to electric energy demand growth on the Delmarva Peninsula, (3) Eastern Shore's expansion of its natural gas transmission system on the Delmarva Peninsula, and (4) Eastern Shore's EnergyLink Expansion Project ("E3 Project"), which would increase availability of clean-burning natural gas for Delmarva. Each of these topics will be further developed in the comments that follow.

Eastern Shore's Role in the Energy
Infrastructure on the Delmarva Peninsula

Eastern Shore has operated interstate natural gas transmission facilities on the Delmarva Peninsula since 1959. Exhibit A is a map of Eastern Shore's existing pipeline system on the Delmarva Peninsula, which includes approximately 370 miles of natural gas transmission mains ranging in size from 6 to 16 inches in diameter. Eastern Shore's existing system also includes 10,220 horsepower ("hp") of compression, provided by facilities located in Daleville, Pennsylvania; Delaware City, Delaware; and Bridgeville, Delaware, as shown on Exhibit A. Eastern Shore's existing system is designed to deliver firm peak day entitlements of 166,800 dekatherms ("dts").

Currently, all of the natural gas transported by Eastern Shore is received from Transcontinental Gas Pipe Line Corporation ("Transco") and Columbia Gas Transmission Corporation ("Columbia") at points of interconnection with those pipelines in Southeastern Pennsylvania and Northern Delaware. Eastern Shore uses its pipeline and compression facilities to transport this natural gas in a north-to-south directional flow through Delaware and into the Eastern Shore of Maryland. That is, currently the only means to deliver natural gas to the Delmarva Peninsula is to first transport the natural gas on upstream interstate pipelines before it enters Eastern Shore's pipeline system.

Eastern Shore provides service to several local natural gas distribution companies ("LDCs") with many of their operations on the Delmarva Peninsula, including Chesapeake Utilities Corporation, Easton Utilities Commission, Delmarva Power, PECO Energy Company, and AGL Resources' Elkton (Maryland) Division. Although a significant portion of Eastern Shore's existing firm service capacity is for temperature-sensitive LDCs Eastern Shore also provides natural gas transportation service to several industrial customers and a number of power generation facilities on the Delmarva Peninsula, including the following electric generation plants: (1) NRG Generating Station in Dover – approximately 90 MW generating capacity, (2) City of Dover (Delaware) McKee Run Generating Station – approximately 136 MW generating capacity, (3) City of Dover Van Sant Generating Station – approximately 40 MW generating capacity, (4) DEMEC Generating Station in Smyrna – approximately 45 MW

generating capacity, and (5) Valero Generating Station in Delaware City – approximately 276 MW generating capacity.

Eastern Shore's Interest in Being Part of the Solution to
Electric Energy Demand Growth on the Delmarva Peninsula

Further expansion of natural gas transmission facilities and the introduction of distribution service into new markets throughout the Delmarva Peninsula could contribute to both a reduction in the rate of electric demand growth and an increase in natural gas transmission capacity available to provide clean-burning natural gas to fuel new electric generation, including new distributed generation facilities.

In April 2002, Governor Ruth Ann Minner established the Delaware Energy Task Force ("Task Force"), whose mission was to address the State of Delaware's long-term and short-term energy challenges. In September 2003, the Task Force issued its final report to the Governor that included a strategy to enhance the availability of natural gas within the State by evaluating possible incentives for expanding residential and commercial natural gas service. The report high-lighted the importance of natural gas availability for new residential and commercial end-users and for the development of clean distributed energy generation. Such expansion of natural gas availability could also provide a cost-effective and environmentally beneficial contribution to resolving long-standing electric transmission congestion problems on the Delmarva Peninsula in both the near and long-term. The use of natural gas to generate electricity is on the rise. The Task Force noted in the report that natural gas is the preferred choice for electric generation in newly built power plants, because it helps meet strict air-quality requirements. Natural gas fueled electric generation in the southern portion of Delaware is a key part of the energy solution.

Significant expansion of natural gas facilities, both on the Peninsula and across the Chesapeake Bay, to serve new electric generation will require long-term, firm commitments by the generators. To provide additional year-round firm transportation services, Eastern Shore must obtain Federal Energy Regulatory Commission ("FERC") approval to construct the required additional facilities. In that process, the FERC will determine whether the proposed new natural gas transmission facilities can be constructed and operated without being subsidized by existing customers who do not need, or may not otherwise benefit from, the additional facilities. In making this determination, the FERC considers whether projected revenues exceed the costs of constructing and operating the proposed facilities over at least a ten-year period, and, of course, far more weight is given to revenues based on long-term, year-round firm service contractual commitments by customers seeking additional service.

Since most electric generators served by Eastern Shore currently hold little or no firm service capacity on Eastern Shore's system, they rely on the availability of interruptible service or firm service capacity temporarily released by other firm capacity customers.

Interruptible service is available only when firm capacity holders are not utilizing their full contracted capacity, capacity which they reserve on the pipeline and for which they pay a monthly reservation charge. The monthly reservation charges ensure the firm customers space in Eastern Shore's pipeline system when they need it. Interruptible service is the lowest priority transportation service on the pipeline and, as such, interruptible customers have no claim on pipeline capacity and pay for such service only when it is available and utilized. By the very nature of its character of service, interruptible service provides no certainty of service and should not be considered as a reliable or predictable means of accessing natural gas supply. Eastern Shore's customers that choose interruptible service typically do so when they have an alternate source of fuel that they wish to rely on. Eastern Shore continues to work with LDCs, industrial customers, and electric generation customers, both existing and potential, to put together economically sound natural gas expansion projects on the Delmarva Peninsula. Eastern Shore has a proven track record of regularly expanding its pipeline system capacity for those parties desiring long-term natural gas availability certainty.

In addition to the firm natural-gas-fueled back-up electric generation facility currently proposed by NRG, Eastern Shore has evaluated numerous different projects during the past ten years regarding the feasibility of providing firm natural gas service to electric generating stations located in the mid-Delmarva Peninsula. It is Eastern Shore's current belief, pending the negotiations of terms and conditions of a service agreement, that a firm commitment by NRG to the E3 Project has the potential for contributing to the success of the project. The original design for the E3 Project included adding 60,000 dts of firm capacity to the overall Eastern Shore pipeline system. NRG is proposing to add another 45,000 dts to this expansion project.

Eastern Shore believes that, with appropriate long-term commitments from electric generation entities, capacity on its pipeline system could be increased to meet almost any incremental generation load south of the C&D Canal either through traditional north-to-south expansions or expansion from the south via the E3 Project. With the addition of natural gas pipeline facilities crossing the Chesapeake Bay through the E3 Project, serving gas-fired electric generation in the southern part of Delaware and Maryland's Eastern Shore now and in the future becomes even more feasible, efficient, and economical.

Eastern Shore's Expansion of Its Natural Gas
Transmission System on the Delmarva Peninsula

Over the past nearly 50 years, Eastern Shore has expanded its pipeline system to meet the growing needs of its customers on the Peninsula. Over the past ten years alone, Eastern Shore has nearly tripled its natural gas transmission capacity on the Peninsula by looping its two main north-south pipelines, adding compression facilities, and extending its mainline to areas which previously had no access to clean-burning natural gas. During the period from 1996 through 2007, Eastern Shore has constructed approximately 100 miles of new main line extensions, looping of existing main line, and

upsizing of existing main line. During the same period, Eastern Shore constructed 3,255 hp of compression facilities at Delaware City, Delaware, and 3,300 hp of additional compression at its Daleville, Pennsylvania, station. As a result, Eastern Shore has increased its peak firm service capacity from approximately 59,000 dekatherms ("dts") per day to 166,800 dts per day. In Eastern Shore's most recent certificate proceeding, at Docket No. CP06-53, the FERC authorized additional facilities to be constructed in 2006, 2007 and 2008 to meet projected additional customer firm service requirements. The three-year north-south system expansion will provide additional firm transportation capacity of 47,350 dekatherms per day when completed. All of this expansion capacity constructed over the past ten years has been provided by Eastern Shore investing nearly $100 million in additional pipeline and compression facilities on the Peninsula.

The eleven Eastern Shore projects approved by the FERC and constructed during the years from 1996 through 2007 have produced benefits both for the customers receiving additional firm service on these projects and for all other customers on Eastern Shore's system as well. These cumulative collateral benefits include: (1) a progressive strengthening of the reliability, stability and flexibility of Eastern Shore's transmission system by upsizing and looping existing main lines and constructing compression facilities at Delaware City and Daleville, (2) increased firm service capacity to meet increasing firm service demand on its system, (3) improved access to upstream gas supply at its interconnections with Transco at Parkesburg and Hockessin and with Columbia at Daleville; and (4) increased access to clean-burning natural gas for existing customers on the Delmarva Peninsula and for potential new customers by way of extensions of Eastern Shore's system into eastern Sussex County. All of the above have been made possible through firm long-term commitments made by Eastern Shore's customers.

To meet future needs for additional natural gas transportation service beyond 2008, Eastern Shore believes that it must continue to expand its existing system on the Peninsula and also provide direct access to new supplemental supply sources by constructing new pipeline infrastructure that would extend from Dominion Resources' liquefied natural gas ("LNG") facilities located at Cove Point, Maryland, cross under the Chesapeake Bay, and interconnect with Eastern Shore's existing pipeline system on the Peninsula.

EasternShore Energylink Expansion Project ("E3 Project")
Energy Smart. Environmentally Smart. Economically Smart

The EasternShore Energylink Expansion Project would provide the necessary infrastructure that would enable Eastern Shore's existing and potential customers to have more direct access to a new source of supply and reduce their total dependence on upstream pipelines (Transco and Columbia) as the sole current sources of supply and capacity for transportation to Eastern Shore's system. The E3 Project would also provide relief from the capacity limitations that Eastern Shore has experienced at its

interconnection with Transco at Hockessin, which required the construction of the compressor station at Delaware City in 1997 in order to maintain delivery pressures at the southern end of Eastern Shore's system. In sum, the proposed E3 Project, by adding new pipeline infrastructure that would connect with Eastern Shore's existing main pipelines, would: (1) greatly enhance supply diversification, operational reliability and flexibility on its system; (2) greatly strengthen and expand its ability to meet its customers' demands on both the northern and southern halves of its system; (3) provide the opportunity for lower cost future expansion on its system; and (4) greatly increase the ability of Eastern Shore's customers to substitute clean-burning natural gas for less environmentally friendly fossil fuels. As stated, natural gas is today's environmental energy of choice. Natural gas has played a role in addressing several environmental concerns, including smog, acid rain, and greenhouse gas emissions.

The E3 Project could also contribute to both a reduction in the rate of electric demand growth and an increase in natural gas transmission capacity available to provide fuel for electric generation, including distributed generation facilities on the Delmarva Peninsula. Such expansion could provide a cost-effective and environmentally beneficial contribution to resolving electric transmission congestion problems on the Delmarva Peninsula in both the near and long-term.

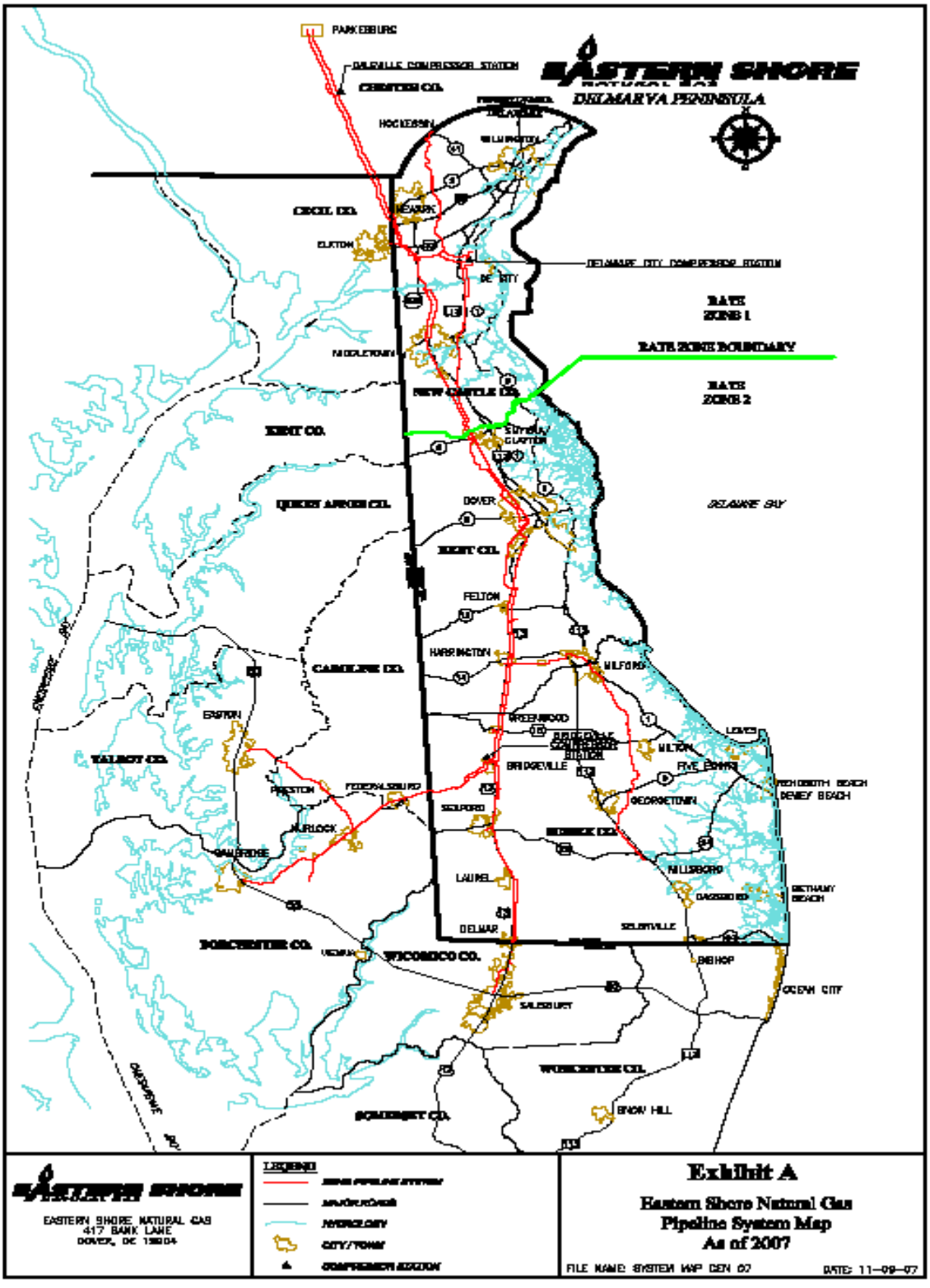
With regard to its E3 Project, Eastern Shore submitted its Request for Pre-Filing to the FERC on April 23, 2007, and on May 15, 2007, the FERC notified Eastern Shore that its request had been approved. The pre-filing process is intended to engage all interested and affected stakeholders early in the process with the intention of resolving all environmental issues prior to the formal certificate application being filed. Eastern Shore remains actively involved in the FERC's pre-filing process. Eastern Shore has made progress in continuing to perform environmental, engineering and cultural surveys and studies in the interest of protecting the environment, minimizing any potential impacts to landowners and cultural resources. To further advance the project, Eastern Shore has held meetings with federal, state, and local permitting/regulatory agencies, non-governmental organizations, landowners and other interested stakeholders. As part of an updated engineering study, Eastern Shore received additional construction cost estimates for the E3 project which indicated substantially higher costs than previously estimated. In an effort to optimize the feasibility of the overall project development plan, Eastern Shore is currently exploring the following as part of its overall project development plan: exploring all potential construction methods, construction cost mitigation strategies, additional market requests, potential design changes and project schedule changes. Eastern Shore is currently in discussions and meetings with several potential new customers who have expressed an interest in the project that would expand its size and likely have significant impact on the cost, timeline, and in-service date. The viability of the E3 project depends upon satisfactory resolution of the foregoing matters, as well as a number of external factors, which cannot be predicted at this time.

The E3 Project has a target in-service date that is entirely compatible with the desired in-service date for Delmarva Power's long-term generation requirements discussed in

the PSC Staff's Report. Eastern Shore is actively engaged in discussions with the parties regarding their respective proposals to Delmarva Power to provide back-up electric generation for the Bluewater Wind proposal.

Eastern Shore appreciates the opportunity to provide its comments in this proceeding and believes its comments offer additional clarification of the role of natural gas as contemplated in this proceeding. Eastern Shore hopes that its comments will also contribute to a more thorough understanding of the important role natural gas has played on the Delmarva Peninsula over the past years and the important role it can play in its future growth.

Exhibit A


EASTERN SHORE
DELMARVA PENINSULA
RATE ZONE 1
RATE ZONE BOUNDARY
RATE ZONE 2
CECIL CO.
KENT CO.
QUEEN ANNES CO.
CAROLINE CO.
TALBOT CO.
DORCHESTER CO.
WICOMICO CO.
SOMERSET CO.
WORCESTER CO.
NEW CASTLE CO.
DELAWARE BAY
EASTERN SHORE NATURAL GAS
417 BANK LANE
DOVER, DE 19904
LEGEND
Exhibit A
Eastern Shore Natural Gas
Pipeline System Map
As of 2007
FILE NAME: SYSTEM MAP GEN 07
DATE: 11-09-07